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## ASIA-PACIFIC ECONOMIC SURVEYS: VIETNAM

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*Author: Tuyet Cosslett*

*Research*

*Assistant: Meridel M. Jackson*

*Federal Research Division*

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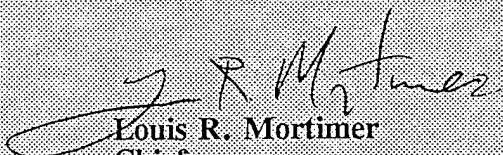
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Chief

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## ASIA-PACIFIC ECONOMIC SURVEYS: VIETNAM

### SUMMARY STATEMENT

The Vietnamese economy has been plagued by "the sluggishness in production, the confusion in distribution and circulation, the difficulties in the people's lives, the negative phenomena in several aspects of life, and the decline in the working people's confidence." These words were used by Nguyen Van Linh, the new Secretary General of the Communist Party of Vietnam (CPV), in opening the Party's Sixth National Congress convened on 15 December 1986.

The Socialist Republic of Vietnam (SRV) is one of the few countries in modern history to experience a sharp economic deterioration in a postwar reconstruction period. The performance of Vietnam's peacetime economy has shown a negative or very slow growth in total national output as well as in agricultural and industrial outputs. Over a decade after the end of the war, Vietnam is one of the world's poorest nations, with a population of 63.5 million (growing at an annual rate of 2.5 percent) and an estimated per capita income of about \$160 per year, compared to \$850 in Thailand and \$180 in Burma. The reasons for this mediocre economic performance include severe climatic conditions that afflicted agricultural crops, bureaucratic mismanagement, dampening of incentives, extinction of entrepreneurial classes in the South, and the military occupation of Cambodia (which resulted in a cutoff of much needed international aid for the reconstruction of Vietnam).

Today Vietnam is at a crossroads between economic liberalization and socialism. The change in leadership that took place at the Sixth CPV Congress could mark the beginning of the end of an era dominated by revolutionaries who placed greater emphasis on security problems of the country than on welfare and modernization. Until Hanoi resolves its internal political struggle and the Cambodian conflict, the near-term prospects for Vietnam's economic revitalization remain extremely poor.

### NATIONAL INCOME GROWTH

The Vietnamese national income is defined as the newly created value of material production by workers during a specific period of time (usually a year). In other words, it is the conventional definition of GDP minus the service sector, that is, income derived only from the manufacture of goods. Vietnam's economy did not meet its target growth in 1986, the

first year of the Fourth Five-Year Plan (1986-90). According to Vo Van Kiet, Chairman of the State Commission for Planning and a key reformist leader, the national income grew by 4.3 percent in 1986, up from the 3.5 percent growth rate in 1985. However, this performance fell very much below the 1986 planned target of 8.8 percent and also below the actual (adjusted for inflation) average annual growth rate of 5.2 percent for the Third Five-Year Plan (1981-85).

#### ECONOMIC REFORMS, CURRENCY DEVALUATION, AND HIGH INFLATION

Vietnam's stagnant economy faces complex problems stemming from serious imbalances in material and goods supplies, errors in the readjustment of prices and wages, rampant inflation, ill-defined policies, bad implementation, bureaucratism, and leadership change and conflict. Since the Sixth Plenum of the Central Committee of the Fourth CPV Congress, held in August-September 1979, a new breed of economic leaders emerged on the political scene and has been playing an increasingly active role in the economy. Led by Vo Van Kiet, these leaders initiated a series of "new economic orientations." The key features of this economic liberalization included the sanctioning of "private" production (that is, free enterprise), the relaxation of bureaucratic controls, the application of the principles of efficiency and freedom of production and distribution, the institution of the "contractual quota system" in agriculture (which considerably increased peasant incentives to boost the food production), and the abolition of the state subsidy system.

There was an immediate recovery following these liberal reforms. Overall economic performance since 1980, however, was mixed and frustrated by the periodic intervention of the dogmatist leaders (Pham Hung, Truong Chinh, and Le Duc Tho), who expressed strong doubts about the economic liberal reforms which they viewed as dangerous "deviations" from socialism. The result was a recurrent policy of crackdowns and controls on the free market, particularly in the southern part of the country. Economic hardship also was caused by a mid-level management that was corrupt, inefficient, and resistant to change.

Vietnam has been plagued by a persistent and soaring rate of inflation that was estimated by the International Monetary Fund (IMF) at 160 percent in 1985, up from just 50 percent in 1984. Some unofficial sources put the rate of inflation at 700 percent by the end of 1985. To curb the rapid monetary expansion and the growing black market, the government undertook a number of currency reforms. In April 1985, the

Vietnamese dong was devalued by 88 percent against the US dollar, raising the rate of exchange from 11.7 to 100 dong per dollar. The black market rate remained unchanged at 350 to 400 dong per dollar. Over a year later, in November 1986, another currency change was made, establishing a "parallel" exchange rate of 80 dong per dollar, compared with the official rate of 15 dong per dollar. Short in hard currencies, Hanoi has encouraged overseas Vietnamese to send money to their relatives remaining in the country by eliminating restrictions on remissions and gifts received from abroad.

#### BALANCE OF PAYMENTS PROBLEMS

According to a confidential report of the IMF, dated 30 June 1986, Vietnam's balance of payments in 1985 showed a trade deficit of US\$1 billion, of which US\$916 million consisted of nonconvertible currency debts. Vietnam's exports totalled US\$875 million and imports were approximately US\$1.9 billion for the same year. Exports of goods, which constitute one of the key programs of the Fourth Five-Year Plan (1986-90), failed to meet the plan's target growth of 14 percent set for 1986. Vo Van Kiet admitted in his economic report to the National Assembly in December 1986 that exports of vegetables and fruits achieved only 71 percent of the planned target. He also indicated that the severe shortage of foreign exchange reserves, which dropped to US\$16 million in 1983 (the latest available figure), reduced imports of raw materials and equipment necessary for the economic revival.

Capital inflows amounted to a total of US\$1.17 billion in 1985, of which US\$1 billion were loans and grants from the Communist Bloc. The Soviet Union and its allies have financed more than 100 projects during the Third Five-Year Plan (1981-85). Foreign aid and economic assistance from the West, Japan, and China to Vietnam have been largely frozen since the Vietnamese invasion of Cambodia in December 1978. Western governments have preconditioned the resumption of their aid on the total withdrawal of Vietnamese troops from Cambodia.

#### RISING FOREIGN DEBT

Vietnam's total foreign debt stood at US\$8.1 billion in 1985, up from US\$6.7 billion in 1984 and US\$3 billion in 1980. Of the total debt, US\$6.2 billion was owed to the Soviet Bloc and US\$1.9 billion to the convertible currency countries (Japan, India, Algeria, Libya, Iraq and others). The Vietnamese Government is heavily in arrears in its loan

payments to noncommunist creditors, which include some international organizations, national governments, and private financial institutions. The total payment in arrears rose to US\$725 million in 1985 from only US\$38 million in 1981.

Vietnam's enormous foreign debt and its inability to repay its foreign loans could adversely affect its international credit rating and impose constraints and impediments on the nation's economic progress. This was the case in January 1985 when IMF assistance to Vietnam was suspended because Hanoi was unable to reach an agreement with the IMF to postpone payment of its debt, due May 1984.

#### MAJOR PRODUCTION AND TRADE ITEMS

The main sectors of the Vietnamese economy are agriculture, light industry (handicrafts and small industry), and heavy industry (mineral resources and energy). Agricultural production accounted for 42.5 percent of national income in 1984, compared to 48.6 percent in 1976. In contrast, industrial output equalled 32.8 percent of national income in 1984, up from 24.3 percent in 1976. In spite of industrial progress, agriculture still assumes a primordial importance and received a top priority at the last Sixth CPV Congress. Productions of grain and foodstuffs, consumer goods, and export goods are the three major economic programs of the Fourth Five-Year Plan (1986-90).

Agricultural output increased by a poor 1.4 percent in 1986 against a planned target of 9 percent, and below the actual average annual growth rate of 4.9 percent for the Third Five-Year Plan (1981-85) and 1.9 percent for the Second Five-Year Plan (1976-80). Most agricultural crops are produced in the south and include rice, corn, fruits, vegetables, rubber, tea, and coffee. In 1986 the production of rice (the staple crop) reached the 1985 level of about 15.6 million tons but fell short of the planned target of 19 million tons. Vietnam's considerable efforts to boost food grain production have been hindered by typhoons, floods, and droughts which damaged extensive expanses of agricultural land. In a speech celebrating the National Day on 2 September 1987, Prime Minister Pham Hung revealed that pests and severe drought had destroyed more than a million tons of rice during the winter-spring harvest. Because of this, the country may face a rice shortage in 1987.

Industrial output grew by 5.6 percent in 1986 against a planned target of 8.8 percent; this figure is low compared with the actual average annual growth rate of 9.5 for the Third

Five-Year Plan, although it greatly exceeds the 0.6 percent rate for the Second Five-Year Plan. Handicraft production and small industry (clothing, textiles, shoes, and so forth) rose only 4.3 percent owing to a lack of raw materials, spare parts, and fuel. In heavy industry, which is mostly located in the north, the production of coal, steel, tin, and phosphate fertilizer was fulfilled according to plan. The energy field, however, has remained stagnant and caused tremendous difficulties to the other sectors of the economy. Power output has grown very slowly, and power shortages have forced many factories to operate at only 45 to 50 percent of capacity. Energy production is to be tripled by the completion of three big Soviet-assisted projects at the end of the 1990-91 period: the 500-megawatt thermal plant at Pha Lai, the 300-megawatt hydroelectric plant at Tri An, and the giant 1,900-megawatt hydroelectric plant at Hoa Binh, which is said to be the "Asian Aswan Dam."

In 1986 Vietnam produced 40,000 metric tons of crude oil, and in April 1987 it sent the first cargo of about 540,000 barrels of crude to Japan for refining. According to official Vietnamese forecasts, the nation will be self-sufficient in oil by 1990. Hanoi has relied on the Soviet Union for most of its oil imports, which amounted to 1.6 million metric tons in 1986. Offshore exploration off the southern coast of Vietnam was started by several American oil companies in the mid-1970s, and Mobil Corporation struck oil at the Bach Ho field, off the coastal city of Vung Tau, in February 1975. Eleven years later, with Soviet assistance, Vietnam initiated its own domestic oil production.

Major exports from Vietnam consist of fruits, vegetables, groundnuts, seafood, tea, rubber, handicrafts, and coal. Main Vietnamese imports include chemical fertilizers, machinery, tractors, spare parts, petroleum, and grain.

#### PRINCIPAL TRADING PARTNERS

Vietnam's major trading partners are the Soviet Union and other member countries of the Council on Mutual Economic Cooperation (COMECON), which Hanoi joined in 1978. Moscow in 1983 supplied 63 percent of Vietnamese imports and received 53.2 percent of Hanoi's exports. Vietnam's economic cooperation with the Soviet Bloc to further foreign trade will likely continue and grow.

Outside the Communist Bloc, Japan has been the SRV's largest trading partner. In 1986 Vietnamese-Japanese bilateral trade amounted to US\$272 million, up from US\$213.9 million in



1985. Singapore, Indonesia, Hong Kong, and France also have traded with Vietnam in spite of the general trade embargo. Vietnam's economic and trade relations with the capitalist world are expected to increase in the 1988-93 period.

#### ECONOMIC IMPORTANCE TO THE UNITED STATES

The United States has no diplomatic or commercial relations with Vietnam. In 1975 the US Department of Commerce placed a trade embargo on American exports to Vietnam, invoking the Trading with the Enemy Act as legal justification for its action. In 1978 the Foreign Assistance and Related Programs Appropriations Act--passed by Congress and extended every year--forbids the use of Federal funds as aid or any other form of payment to the Vietnamese Government. Similarly, the Trade Act of 1974 prohibits the granting of government-guaranteed credits and Most-Favored-Nation (MNF) treatment to any country that denies its citizens the right to emigrate and does not cooperate with the United States in providing a complete accounting of US military and civilian personnel. Until the missing-in-action issue (MIA) is resolved to the satisfaction of the United States Congress, it seems unlikely that Washington will lift its restrictions on trade and commercial relations with the SRV.

#### DEFENSE BUDGET

Vietnam's defense budget is estimated to account for 40 to 50 percent of the national budget. Although accurate figures are not available, it is believed that Vietnamese military expenditure, as a percentage of GNP, must be the highest in Asia. Vietnam maintains an army of over 1 million (the third largest in the Communist world); it has stationed about 50,000 troops (or 3 divisions) in Laos since 1975, and about 140,000 troops (or 10 to 12 divisions) in the Cambodia conflict since early 1979. The People's Army of Vietnam also has deployed 20 to 25 divisions along the northern border with China. The high cost of defending the country has made Vietnam totally dependent upon Soviet military assistance, which amounted to US\$640 million in 1985 (according to the latest figures from the US Arms Control and Disarmament Agency).